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INNOVATIONS AND FINTECH IN HUNGARY
– FROM THE REGULATOR'S POINT OF VIEW

Where Hungary is?

Central Bank of Hungary (MNB)

MNB FINTECH LAB

...AND IT'S BACKGROUND

MNB (CENTRAL BANK OF HUNGARY) FINTECH LAB

Information

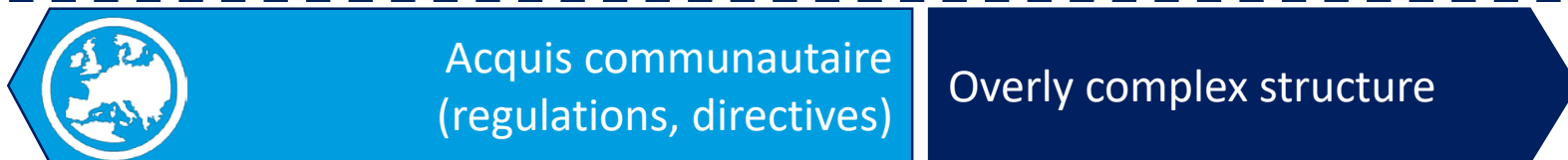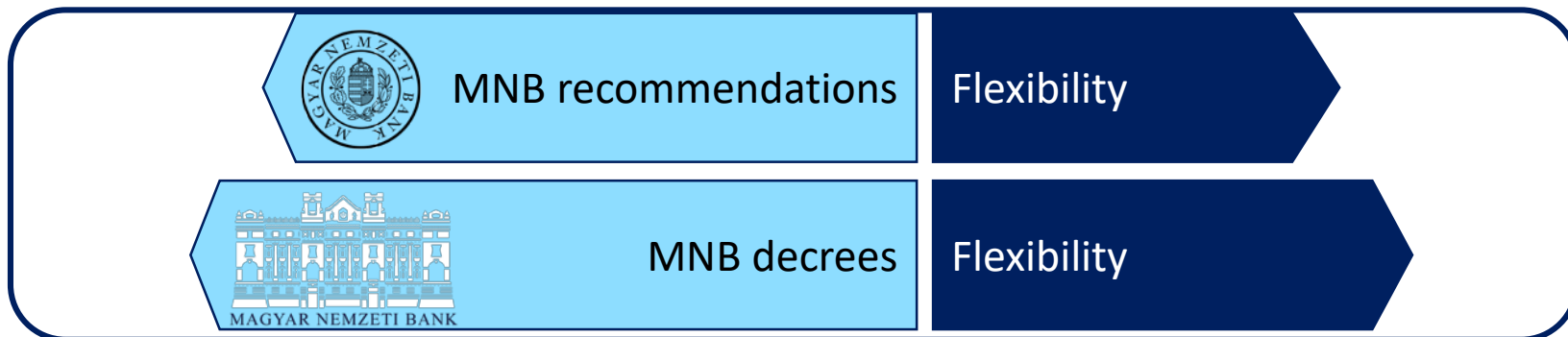|	
When	From 2018. March
Where	Estabilished by MNB. Fintech Lab works under the direct control of Prudential Modelling and IT Supervision Directorate

Role	▪ Aim and role is different from the role of Fintech Labs in the private sector
	▪ Working as HUB between MNB and market players
	▪ Gather information about
	    ▪ New technologies
	    ▪ Products
	    ▪ Services
	▪ Keep direct contact with innovators
	▪ Find the (secure) way for implementation of the fintech innovations to the market practice

SUPERVISORY DILEMMA

FINTECH INNOVATIONS BRING NEW CHALLENGES AT EVERY LEVEL OF FINANCIAL REGULATION

Legal interpretations Legal practices	No legislation needed	Innovation Hub
MNB recommendations	Flexibility	
MNB decrees	Flexibility	
Hungarian financial regulation (law, non-MNB decrees)	Multiple regulatory perspectives	
Acquis communautaire (regulations, directives)	Overly complex structure	

Regulatory Sandbox

Regulatory environment for FinTech innovations to comply with in Hungary

The legal environment and legal interpretations often hinder innovation as they have not fully adapted to technological advancement

Losing control
Spreading of cross-border activities, regulatory arbitrage

Aim:
Finding the balance between excessively flexible and overly restrictive approaches

Promoting FinTech innovations with cooperation between the regulator and market participants, while maintaining financial stability

Unfair advantage
Competitive advantage of FinTech over strictly regulated financial institutions

Excessive restrictions

„Laissez faire"

Obstacles to innovation
Maintaining the inefficient business models of incumbent institutions and hampering development

Consumer protection?
Threat to depositors and investors

Possible solutions

Innovation Hub

- FinTech innovators get legal **guidance** from the supervisor
- It helps FinTech innovators to **find information on the legislative environment**

Regulatory sandbox

FinTech innovations can be tested
- for a **certain time** and under **predefined conditions**
- on a limited number of **real consumers**
- with **exemption from certain regulatory requirements**

THE MNB AIMS TO SUPPORT DIGITAL INNOVATION THROUGH TWO MAIN INITIATIVES

MNB Innovation Hub

Definition: It provides a dedicated point of contact for firms to raise enquiries on FinTech-related issues and to seek non-binding guidance on the conformity of innovative financial products, financial services or business models with licensing or registration requirements and regulatory and supervisory expectations.

Since **March 2018,** issues related to **more than a dozen innovative solutions** have been discussed with market participants

Information repository

Regulatory support platform

Communication hub

International cooperation platform

MNB Regulatory Sandbox

Definition: Customized test environment in which participants receive exceptions from national level regulations. The participants must have licence for the financial service providing.

FinTech innovations can be tested
- for a **certain time,** under **predefined conditions**
- on a limited number of **customers**
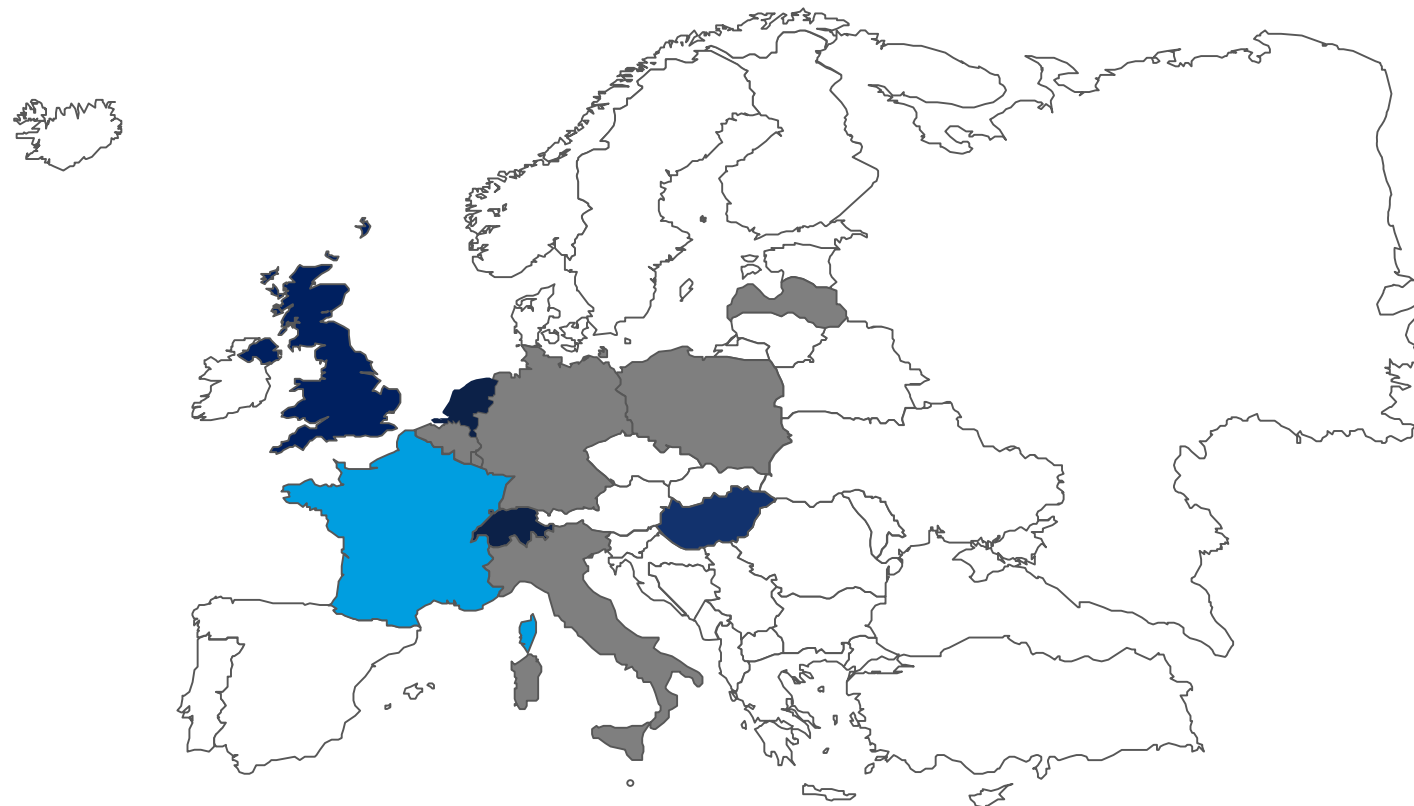- with **exemption from certain regulatory requirements**

The **MNB Regulatory Sandbox** was launched in **December 2018.** **Regulated by MNB's decree.**

Innovation support from Regulators	Dedicated Innovation HUB	Dedicated Innovation Hub and Regulatory Sandbox

Innovation Hubs and Regulatory Sandboxes in Europe

Supervision practice is not consistent at international level, but targeted solutions are being applied in more and more countries

Innovation Hub – Regulatory support platform

FinTech innovation by a company/ bank/ insurer

I. Handling incoming requests

Filtering the incoming request and forwarding to relevant MNB divisions

II. Examination of acceptance criterias

Accepting an application based on criteria (filtration)

III. Answer preparation and completition

Processing the question or problem by competent expert(s)

Answering to the innovator

Informing the applicant about the process

External mentor
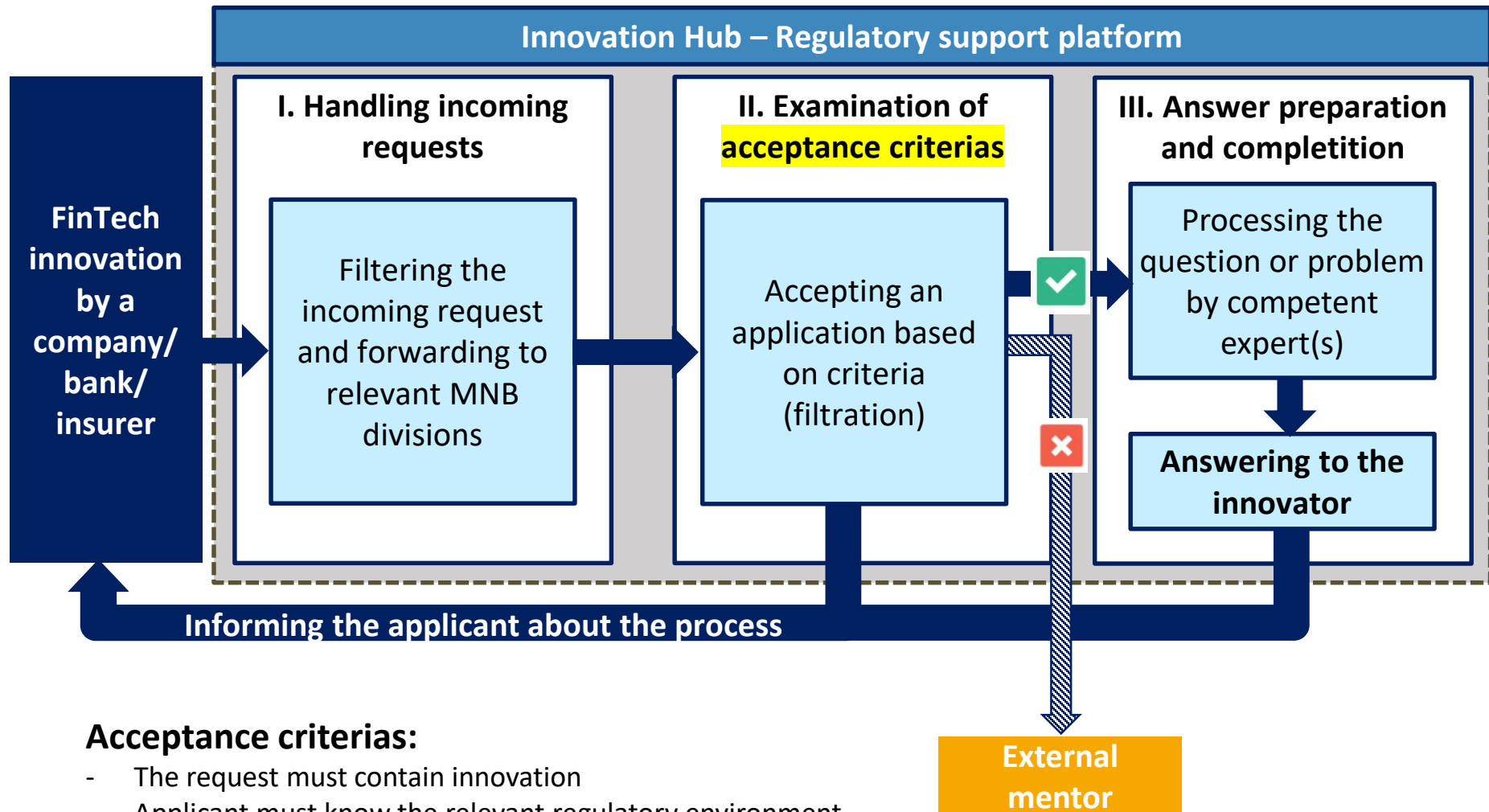
Acceptance criterias:

- The request must contain innovation
- Applicant must know the relevant regulatory environment
- There is no prior regulation

Source | MNB

REGULATORY SANDBOX

SETTING UP A REGULATORY SANDBOX FRAMEWORK CAN SUPPORT MARKET ENTRY OF INNOVATIVE SOLUTIONS I.

Phase I: Application period

1 Application of innovators

- Orientation on acceptance criteria

- Online application form

2 Handling incoming requests

- Evaluation

- Distribution within the MNB

3 Examination of acceptance criterias

- Preliminary opinion on compliance

- Decision on acceptance criteria compliance

Phase II: Testing and evaluation

Acceptance criteria

- Solution is proven to be innovative
- The aim is to introduce the solution on domestic market
- Concept is ready for the test

Phase I: Application period

Phase II: Testing and evaluation (following application period)

4

Launch of testing period

- Discussion on conditions and details of testing
- Decision on launching test period
- **Resolution on exemption**

5

Testing

- Monitoring based on reports and consultations
- Regular review

6

Evaluation

- Discussion and evaluation with the innovator
- MNB evaluation based on preliminary KPIs

The whole process coordinated by a dedicated case officer

Possible outcomes of testing

A) Compliance with decrees

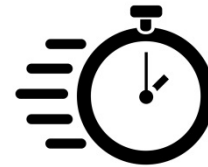**B) Amendment of decrees**

C) Termination of the activity

HUNGARIAN INSTANT PAYMENTS

Preserving competitiveness due to international developments

Previous developments supported faster payment solutions (e.g. intraday clearing of credit transfers)
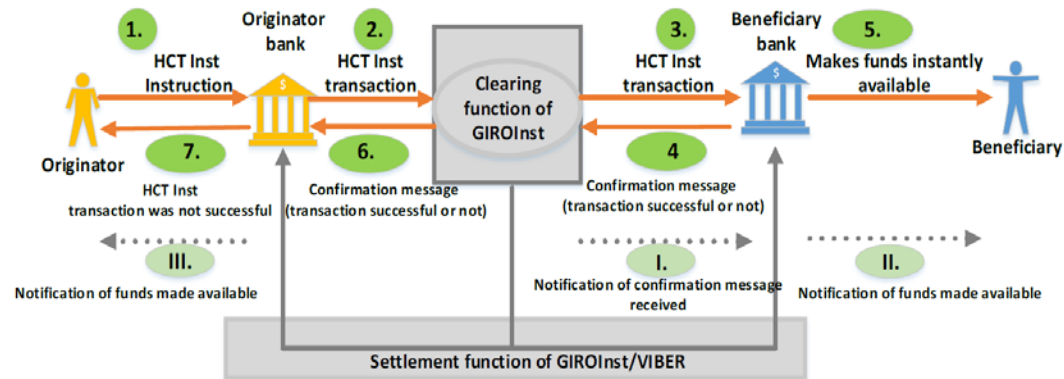
More benefits of instant payments: supporting the innovation extending payment options

The Hungarian instant payment service should be a widely used payment option

Instant payments

Processing of payment

Continuous operation with no planned downtime	Mandatory for credit transfers under HUF 10 million	5 seconds maximum execution time	Mandatory negative and optional positive responses
Prefunding at the Central Bank	Clearing and settlement on a per-transaction basis	Main rules appear in legislation or in standards	Secondary IDs Request to pay

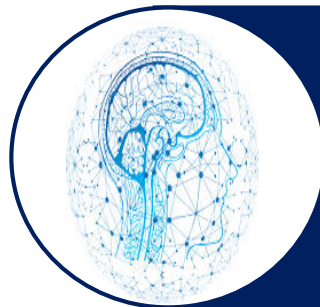|	Start date	01/07/2019 at 0h:00m:01s

NATURAL LANGUAGE PROCESSING AT MNB

Definition:

„*Natural Language Processing* (*NLP)* is a sub-field of *Artificial Intelligence* that is focused on enabling computers to understand and process human languages, to get computers closer to a human-level understanding of language. "*

Benefits

- **Significant Reduction in Human Involvement**

- **Continuous processing**

- **Lower error rate**

- **More efficient than the human processing**

The MNB plans to use this technology in particular:

- By structuring highly unstructured data sources (e.g. phone calls, not readable pdf files, etc.)
- Handling large volumes of textual data
- Processing of the documentation received during the on- and off-site supervision

* source: https://towardsdatascience.com/an-easy-introduction-to-natural-language-processing-b1e2801291c1

... AND TO BE CONTINUED ...

THANK YOU FOR YOUR ATTENTION!